



*"Each new challenge  
strengthens our resolve to  
develop and implement  
strategies that will allow us to  
help secure a sound and safer  
America."*



Fiscal year 1996 was outstanding for Bureau management initiatives and improvements. ATF is especially pleased with the progress related to preparation of financial statements, with an unqualified audit opinion from the Office of Inspector General (OIG) for the FY 1995 Statement of Financial Position. This achievement culminated a two-year Bureau-wide effort to improve management accountability and business processes. FY 1996's financial audit increased in scope to include the Statement of Operations and Changes in Net Position.

## MANAGEMENT INITIATIVES

The Bureau revised its budget activity structure in FY 1996 to link strategic planning, budget formulation, and financial management execution. Benefits of the new structure include a budget easily understood by external stakeholders and an infrastructure for strategic decision making and results evaluation. Management accountability remains an integral focus of all business processes. In FY 1996, ATF continued using the CFO Steering Committee and CFO Process Teams as a primary structure for improvements in accountability and financial management processes; initiated the first steps towards developing a cost accounting system; created a strategic management team; and increased the focus on financial management training for both program officials and financial management personnel.

### CFO STEERING COMMITTEE AND PROCESS TEAMS

The CFO Steering Committee, comprised of the deputies of each major Bureau component, continued to meet monthly during FY 1996. They provide a forum for monitoring progress, resolving problems, providing coordination, and developing consensus recommendations regarding audited financial statement issues and the Bureau's internal control environment. Bureau-wide process teams, created in FY 1995 to address CFO financial audit weaknesses, were successful in correcting many business process problems. In their FY 1995 financial audit, the OIG identified no material weaknesses in ATF's internal control structure and no instances of reportable noncompliance with laws and regulations. However, the OIG did identify nine reportable conditions (see page 51). The process

teams, along with financial management personnel, addressed many of these deficiencies and implemented corrective actions.

Due to the long-term nature of the issues, many of the planned corrective actions related to Electronic Data Processing (EDP) extend beyond FY 1996 for implementation. The Bureau established a new process team to address the FY 1995 CFO EDP audit findings and recommendations. This team works closely with the OIG's Director of Information Technology to address corrective actions.

### COST ACCOUNTING AND PERFORMANCE MEASUREMENT

ATF formed a Bureau-wide team to gather requirements for a cost/performance measurement system. From identification of preliminary requirements for performance measurements, a new budget activity and program structure was developed to present the FY 1998 budget. The new framework links strategic planning, budgeting and program planning into a single integrated package, permitting the Bureau to improve formulation and execution of its programs.

Plans are to implement the cost/performance measurement system incrementally over the next several years. The next phases are to refine definitions of performance measures, develop a costing methodology, and implement an operational cost accounting pilot.

### STRATEGIC MANAGEMENT TEAM

In FY 1996, the Bureau established a Strategic Management Team to direct implementation of the strategic plan and to make strategic business decisions. The team, comprised of the Associate

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Director (Enforcement), Chief Counsel, and the five Assistant Directors, under the leadership of the Deputy Director, meets on a bi-weekly basis. The team's focus is to ensure that the elements of teamwork, accountability, communications, and training are incorporated into the daily activities of implementing the strategic plan. In accordance with the provisions of the Information Technology Management Reform Act of 1996, the Strategic Management Team serves as the Bureau's investment review board to evaluate all new major investments and determine whether to retain funding for existing investments that were deployed in prior years.

Notable accomplishments for FY 1996:

- established an Ombudsman in two ATF program areas, who will establish a formal process for resolving external customer and stakeholder concerns. ATF will evaluate the effectiveness of the function after one year to determine whether to expand the Ombudsman position to additional ATF program areas;
- authorized the development of a centralized case management system for operations conducted in the Office of Enforcement. The system will reduce employee paperwork, enhance ATF's intelligence capabilities, and provide key management information; and
- approved three new budget activities (Reduce Violent Crime, Collect Revenue, and Protect the Public) for the FY 1998 budget submission.

## FINANCIAL MANAGEMENT AND TRAINING

FY 1996 financial management initiatives included implementation of a new internal control process and training in new processes related to financial statement preparation. The Monthly

Accountability Plan (MAP) is a reporting mechanism used to monitor critical key activities that must be accomplished in order to achieve an efficient and effective integrated financial management process. Included in the MAP are data on key operating duties and indicators, such as account reconciliations, system assurance, financial reporting, and workload statistics.

ATF focused on providing financial management training to personnel throughout the Bureau. Funds Management personnel from headquarters and the field attended training sessions on the CFO Act, the Government Performance and Results Act, Government Management Reform Act, linkage between strategic planning and budgeting, finance and payment issues, year end closing procedures, and training on new financial systems submodules. Financial management staff attended the first phase of Instructor Training in order to achieve certification in financial management training for the Bureau.

## FINANCIAL SYSTEMS

The Bureau's systems modernization efforts are designed to improve the effectiveness and efficiency of financial data processing and reporting capabilities. Planned improvements to the Financial Management Information System (FMIS) address integrating all financial-related systems and establishing direct links between program costs, performance measures, and financial reporting for the execution of the Bureau's mission.

The development of an Integrated Collections System (ICS) will provide the foundation for the Bureau's revenue management function. The ICS integrates numerous stand-alone tax and fee databases to provide comprehensive

*"In FY 1996, ATF continued using the CFO Steering Committee and CFO Process teams as a primary structure for improvements in accountability and financial management systems."*

revenue management information for Bureau program managers. Completion of the ICS will reduce the risk of revenue loss, eliminate duplication found in multiple databases, and increase ATF's tax return and claim verification efficiency.

## FINANCIAL MANAGEMENT INFORMATION SYSTEM

Core FMIS is an off-the-shelf software package that provides general ledger control for administrative and revenue accounting. Core modules include budget execution and funds control, reimbursable project cost accounting, accounts payable and receivable, travel, document tracking, purchasing, disbursements and a reports management system. Maintenance and development tasks focus on providing more reliable, consistent and meaningful information to management for decision making.

FMIS FY 1996 accomplishments:

- began a three-year process to migrate Bureau managers from existing financial cuff systems (independent, non-integrated systems) to FMIS. Program Office Desktop, a Windows-based client server application, will fully integrate with FMIS and enable funds control managers to electronically prepare, route, and process financial documents, establish budgetary plans, and define and run their own management reports;
- upgraded to a new suite of personal computers to accommodate new software associated with Program Office Desktop and other planned applications; and
- implemented an enhanced payroll interface to facilitate error correction and cash reconciliation.

FMIS plans:

- install a new time and attendance system called Simplified Time and Attendance Tracking (STATS), scheduled for implementation during FY 1997. STATS is an on-line, mainframe application that will enhance transmission of data by timekeepers and provide on-line edits of data to prevent transmission of incorrectly coded payroll transactions;
- complete implementation of Program Office Desktop; and
- implement new property and space management systems. Implementation of the property system is scheduled for FY 1997.

## INTEGRATED COLLECTIONS SYSTEM

The ICS is a long-range project to integrate Bureau revenue management, including operational and financial processes. Areas specifically targeted for improvement are ATF business processes; revenue collection; management and accounting practices; and system flexibility to respond to changing functional and information requirements.

Following is an overview of the objectives for the seven major ICS business areas scheduled for development:

**Permit Management:** provide enhanced system capability to more effectively administer permit and license application processing for alcohol, tobacco, firearms, and explosives industries.

FY 1996 accomplishments:

- modified the Firearms Explosives Import System Pilot to an open systems architecture

- completed Certificate of Label Approval Formula Modernization software development
- completed Federal Firearms License Verification System
- completed National Firearms Act database working prototype
- completed Alcohol and Tobacco Permit database design

Plans for FY 1997 include continuing development of the National Firearms Act database, and the Alcohol and Tobacco and Firearms Licensing Systems.

**Tax Protection:** improve timeliness of tax and fee collection and claims processing, with more reliable internal controls to ensure fair and accurate tax assessments to ATF's customers.

Plans for FY 1997 include continuing development of the Federal Excise and Special Occupational Tax Systems.

**Program Management:** provide an enhanced capability to evaluate mission program performance.

**Commodity Compliance:** provide additional safeguards to the public from the threat of deception, contamination, and fraud in alcohol beverage products.

**Public Safety:** provide stronger safety measures from potential hazards inherent in the firearms and explosives industries (such as storage, transfer and sale).

**Administrative Actions:** provide the framework to enhance the Bureau's ability to follow up on all regulatory enforcement actions.

**Funds Management:** integrate financial information from all business areas described above with the FMIS general ledger.

As the FMIS and ICS developments proceed, ATF will continue to reexamine and redesign business processes to

ensure maximum return on the taxpayers' investment. The Bureau will strive to align all financial systems planning with the needs of the regulated industries and other key stakeholders.

## FINANCIAL PERFORMANCE

### PROMPT PAYMENT

The Prompt Payment Act requires the Federal Government to make vendor payments timely, with interest penalties for late payments and discounts for meeting approved accelerated payments. ATF implemented systems enhancements and edits to ensure compliance with the Prompt Payment Act, which included controls to ensure that the acceptance of goods and services date is drawn from the receiving document only. FMIS was reconfigured to permit rescheduling of

payments if the payment falls on weekends or holidays. In FY 1996, ATF made significant improvements in the timeliness of vendor payments. The FY 1996 2.8 percent annual delinquency rate represents a 61 percent decrease in the prompt pay delinquency rate from the Bureau's FY 1995 average.

### CASH MANAGEMENT

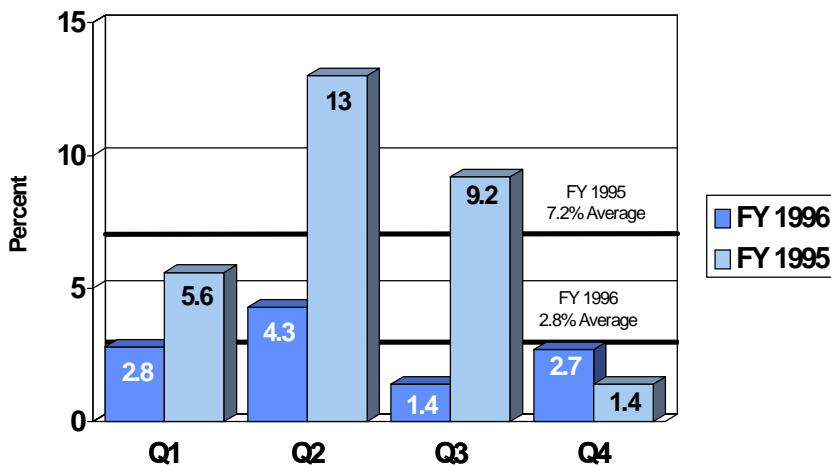
A number of initiatives are under way or planned to improve and modernize cash management business practices. ATF eliminated cash advances for travel. Employees now obtain travel advances from Automated Teller Machines with their Government American Express charge card.

The Electronic Funds Transfer program replaces checks and cash by directly transferring payments to vendor and customer accounts through an electronic network used by commercial banks. In FY 1996, the Bureau imple-

mented this program for all travel reimbursement payments. Additionally, over 95 percent of Bureau employees participate with salary direct deposit, substantially reducing administrative responsibilities for distribution of paychecks.

The Bureau uses the automated FEDWIRE Deposit System for semi-monthly collection of alcohol and tobacco excise tax payments by taxpayers who pay more than \$5 million per calendar year. ATF also maintains a network of commercial post office boxes, or lockboxes, throughout the United States for collection of other excise taxes, firearms license and permit fees, and Special Occupational Taxes. The lockbox depository credits collections received by ATF directly to a clearing account for subsequent transfer to the United States Treasury, ensuring timely deposit of tax revenue to the Treasury General Fund. ATF collects over 97 percent of excise tax revenues through these electronic means.

**Prompt Pay Quarterly Comparison**  
Frequency of Invoices with Paid Interest Penalties



Treasury Goal is 2%

*“The FY 1996 2.8 percent annual delinquency rate represents a 61 percent decrease in the prompt pay delinquency rate from the Bureau's FY 1995 average.”*

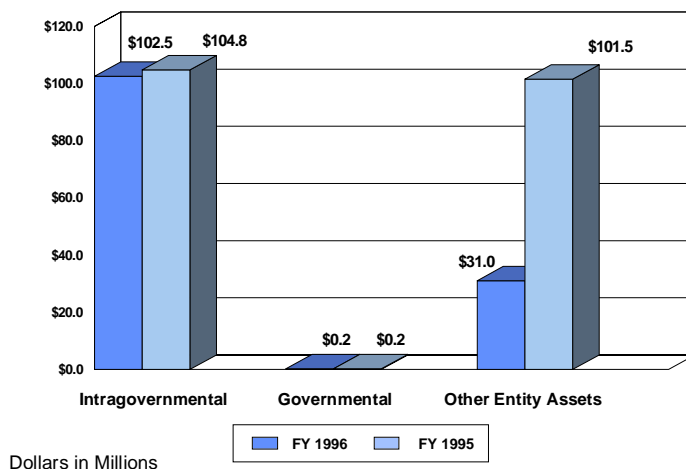
## ENTITY ASSETS AND LIABILITIES

The Bureau's intragovernmental entity assets for the periods ending September 30, 1996 and 1995, include fund balance with Treasury and receivables due to ATF resulting from reimbursable work performed for other Federal agencies. Governmental entity assets include receivables and advances due from employees and court ordered restitutions for violations of laws and regulations. Entity assets also include cash (imprest funds) and property and equipment, net of depreciation. In

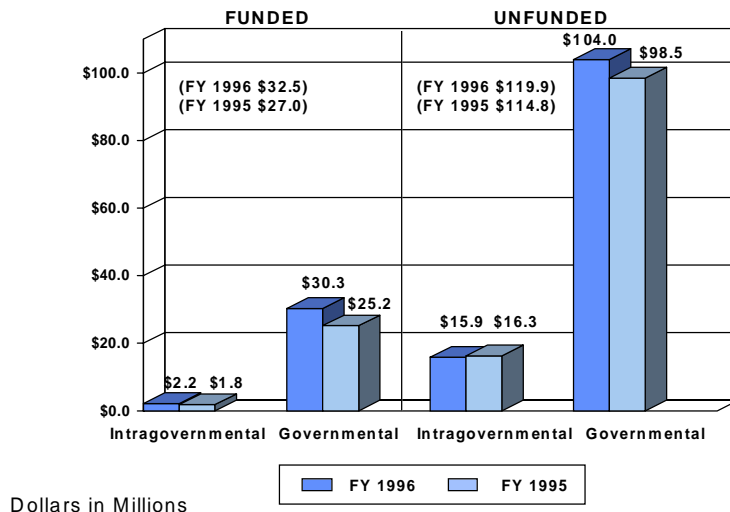
FY 1996, the Bureau entered into an interagency agreement with the U.S. Customs Service to provide aircraft operations support to ATF for investigative requirements. Thus, after obtaining Department of the Treasury and General Services Administration approvals, ATF, at the close of FY 1996, transferred all of its aircraft and related assets to the Department of State. The net book value of the aircraft and support equipment transferred totaled \$20.5 million. Transferred aircraft materials and supplies totaled \$50.2 million.

Entity liabilities are incurred during the performance of the Bureau's mission. Liabilities funded by appropriations include accounts payable to vendors, employees, and other government agencies as well as accrued payroll expenses as of September 30, 1996 and 1995. Unfunded liabilities that will be paid through future appropriations include employee claims for leave and workers' compensation benefits as well as future capital lease and contingent liability payments.

**Entity Assets**



**Entity Liabilities**



## NON-ENTITY ASSETS AND LIABILITIES

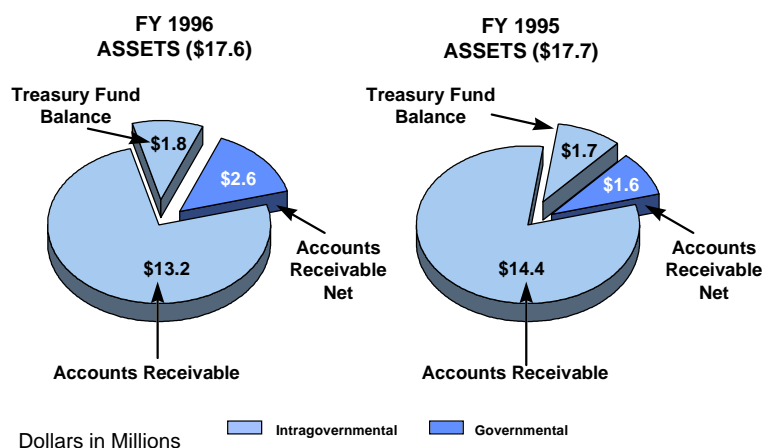
Non-entity assets primarily relate to the Bureau's revenue collection function for the Federal Government. Components of intragovernmental non-entity assets at September 30, 1996 and 1995, include fund balance with Treasury and accounts receivable due to ATF from the Treasury to refund certain excise tax and license fee claims. Governmental non-entity assets consist of accounts receivable less amounts deemed uncollectible. These receivables include outstanding excise and Special Occupational

Taxes, fees, fines, penalties and interest that have been assessed and remain unpaid at year end.

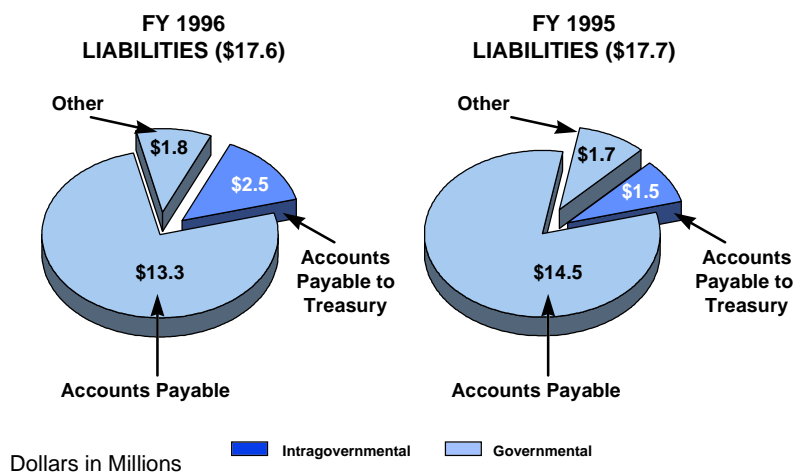
Non-entity liabilities, primarily governmental, relate to the Bureau's custodial function for revenue collection. Amounts include accrued accounts payable to refund taxpayers for claims approved by ATF but not disbursed as of September 30, 1996 and 1995, as well as amounts held in escrow for cash bonds and offers-in-compromise.

Intragovernmental liabilities represent taxes which will be transferred to the Treasury when collected.

### Non-Entity Assets



### Non-Entity Liabilities



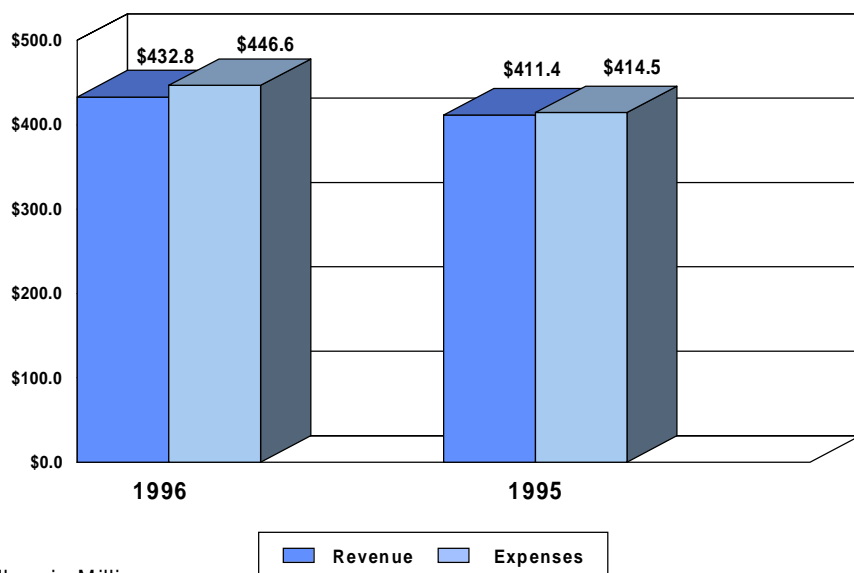


## ENTITY REVENUE AND EXPENSES

Entity revenue represents the Bureau's appropriations and financing sources used to fund its mission. Revenue includes reimbursement for services provided to others. The Bureau incurs expenses in excess of revenue for each fiscal year due to unfunded contingency and actuarial liabilities, which are expensed in the year they are recognized as liabilities.

Expenses reflect program and operating costs, depreciation, amortization, and changes in Federal Employees Compensation Act actuarial liabilities. Expenses also include bad debts, Prompt Pay Act interest paid, and losses on the disposition of assets.

Entity Revenue And Expenses



Dollars in Millions

## REVENUE MANAGEMENT

ATF ensures the collection of Federal Excise Tax and protection of the revenue through a system of laws, regulations, tax returns, permits, bonds, and disbursement (refund) functions in accordance with the Internal Revenue Code of 1986. The Bureau collects, records and accounts for a variety of taxes and registration and license fees from the alcohol, tobacco, firearms, ammunition and explosives industries.

*None of the non-entity revenue collected by ATF is used in any Bureau operations; all funds are transferred to the Treasury or other Federal agencies for further distribution in accordance with various laws and regulations.*

Responsibility for collection of taxes and fees belongs to the regulatory enforcement offices. In FY 1996, the Bureau began a six-year effort to consolidate the five Technical Services offices located throughout the country into a single office located in Cincinnati, Ohio, which is also the site of ATF's Tax Processing Center. The consolidation goals are to integrate and streamline administrative and technical functions, increase overall effectiveness, and realize cost savings. ATF expects that claims refund and tax return processing will improve through efficiency and consistency.

## REVENUE SOURCES

*Tax and fee revenue dollars are presented as "gross" revenue before refunds and include related interest and penalties. In general, FY 1996 revenue decreased from FY 1995 due to an accelerated payment schedule for excise taxes in FY 1995, mandated by Public Law 103-465, Section 712.*

### ***Alcohol and Tobacco Excise Tax***

ATF collects taxes from manufacturers of alcohol and tobacco products. Taxes are generally levied at the manufacturer level when products are removed from the business premises. For FYs 1996 and 1995, the Bureau collected \$12.4 billion and \$12.9 billion, respectively, in excise taxes on alcohol and tobacco products.

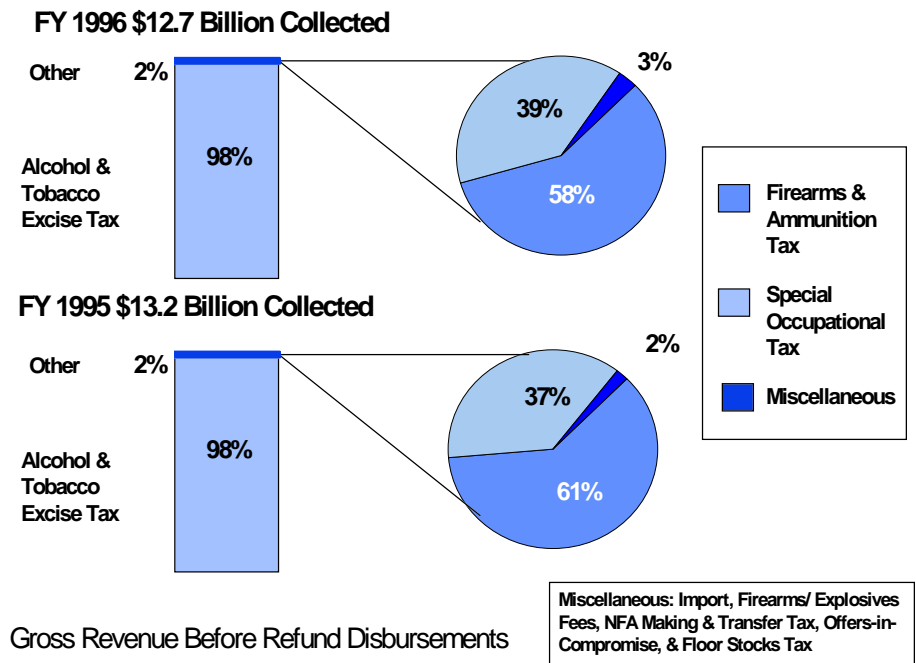
### ***Firearms and Ammunition Tax***

Section 4181 of the Internal Revenue Code imposes taxes on the sale or use of firearms and ammunition by the manufacturer, producer, or importer of the article. ATF assumed the responsibility for collection of the firearms and ammunition excise tax from the Internal Revenue Service in January, 1991. ATF collected \$161.0 million and \$186.6 million in excise taxes on firearms and ammunition sales in FYs 1996 and 1995, respectively. The Pittman-Robertson Wildlife Restoration Act of 1937 requires that the entire revenue (less refund payments) collected from Federal firearms and ammunition excise taxes be transferred to the Interior Department's Federal Aid to Wildlife Restoration Fund to support their mission.

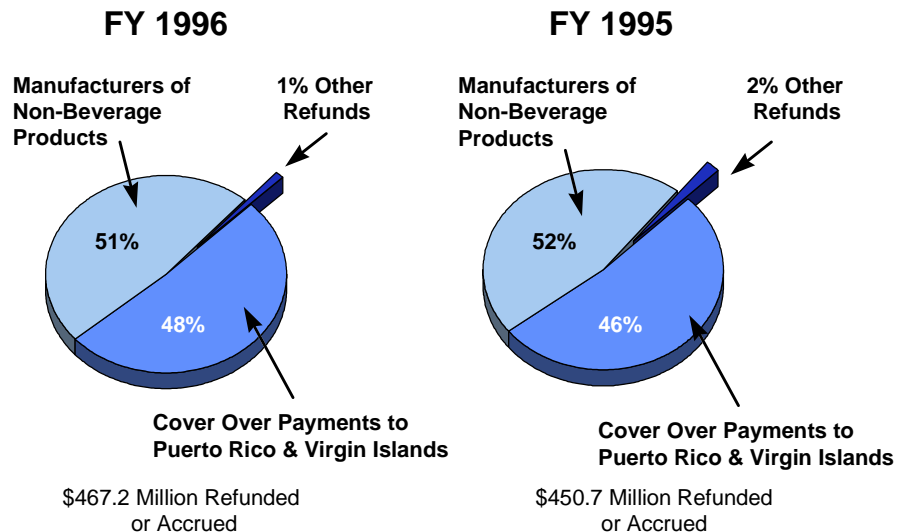
### ***Special Occupational Tax***

ATF collects the Special Occupational Tax imposed by Section 5121 of the Internal Revenue Code on certain alcohol, tobacco and firearms businesses. This tax is due annually on July 1, and is applicable to producers, wholesalers, and retailers of alcohol beverages, manufacturers of tobacco products, and dealers/users of industrial alcohol, as well as to importers, manufacturers, and dealers in National Firearms Act firearms (e.g., machine guns). For FYs 1996 and 1995, \$108.3 million and \$111.0 million, respectively, was generated in Special Occupational Taxes.

## **Tax And Fee Revenue**



## **Revenue Tax And Fee Refunds**



***Import Fees******Firearms/Explosives Fees***

The Bureau collects registration fees from persons engaged in importing firearms, ammunition, and implements of war as mandated by the Arms Export Control Act. ATF's licensing center in Atlanta, Georgia processes applications for firearms licenses (to manufacture, import, deal in, and collect firearms) and explosives licenses (to manufacture, import, deal in, and use explosives). Combined collections for these fees were \$5.0 million and \$4.1 million in FYs 1996 and 1995, respectively.

***National Firearms Act Making and Transfer Tax***

Additional taxes are imposed on the making and transferring of Title II firearms by persons not subject to the Special Occupational Tax. (Title II firearms include machine guns, short-barreled rifles or shotguns, silencers, and destructive devices.) The Bureau collected \$1.4 million and \$1.3 million in National Firearms Act Making and Transfer Taxes during FYs 1996 and 1995, respectively.

***Offers-in-Compromise***

The Bureau negotiates offers-in-compromise on receivables for taxes, penalties and interest that have already been assessed but not collected due to taxpayer inability or unwillingness to pay. Additionally, the Federal Alcohol Administration Act imposes monetary penalties for violations of trade practices, labeling, or advertising by beverage alcohol businesses. Under certain circumstances, ATF accepts these reduced offers of payments from assessed parties rather than write off the entire assessed amount due as uncollectible. For FYs 1996 and 1995, the Bureau collected \$82 thousand and \$423 thousand, respectively, in offers-in-compromise.

***Floor Stocks Tax***

Collection of a floor stocks tax is generally required when an excise tax is first imposed or increased on a particular commodity. The manufacturer, importer, distributor, or retailer must inventory the commodity on-hand as of the effective date of the legislation and pay any incremental taxes on these goods in inventory. In FY 1996, the Bureau collected \$103 thousand in floor stocks taxes imposed in prior years. FY 1995's collection of floor stocks taxes totaled \$239 thousand.

**TAX AND FEE REFUNDS**

In addition to collecting revenue, ATF makes various types of disbursements for taxes and fees paid to the Federal Government. Disbursement amounts include accounts payable accrued as of September 30, 1996 and 1995.

***Manufacturers of Non-Beverage Products***

Manufacturers may file claims to recover (drawback) all but \$1 per proof gallon on excise taxes paid on distilled spirits used in the manufacture or production of medicines, medicinal preparations, food products, flavors, or flavoring extracts which are unfit for beverage purposes. For FYs 1996 and 1995, \$235.9 million and \$235.2 million, respectively, was refunded to manufacturers as drawback for taxes paid on alcohol used in non-beverage alcohol products.

***Cover Over Payments to Puerto Rico and the Virgin Islands***

The Internal Revenue Code of 1986, as amended (26 U.S.C. 5314 and 7652) provides that taxes collected on articles produced in Puerto Rico and the Virgin Islands transported to the United States (less the estimated amount necessary for payment of refunds and drawbacks) shall be covered over (paid to) to the

treasuries of Puerto Rico and the Virgin Islands. ATF's responsibility is to ensure the collection of these taxes on distilled spirits, wine, beer and tobacco products, and to determine amounts to be paid to the insular governments.

The Treasury of Puerto Rico is paid directly from the excise taxes collected by ATF on a monthly basis. Excise tax payments are based on Secretary of the Treasury approved prescribed formulae for bulk and cased distilled spirits from Puerto Rico. Excise tax payments generated from rum imports from other foreign sources are also paid directly to the treasuries of the Virgin Islands and Puerto Rico on a monthly basis.

The Government of the Virgin Islands receives a fiscal year advance of funds based on agreed upon domestic rum production estimates made by their treasury and the U.S. Department of the Interior. ATF provides actual tax payment and usage data to the Department of the Interior on a monthly basis to ensure that the Government of the Virgin Islands receives full payment. Disbursements to the governments of Puerto Rico and the Virgin Islands totaled \$223.7 million in FY 1996 and \$207.7 million in FY 1995.

***Other Refunds***

ATF refunds fees paid in advance by those applicants who do not meet the criteria to qualify for a license or permit. Additional refunds are made for approved taxpayer claims of overpayment in all categories of revenue. ATF refunded \$7.6 million in FY 1996 and \$7.8 million in FY 1995 for these claims.

# FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT HIGHLIGHTS

The Bureau centrally manages the Federal Managers' Financial Integrity Act (FMFIA) program, with oversight responsibilities assigned to the CFO. However, each executive office maintains responsibility for a cost-effective system of controls to provide reasonable assurance that Government resources are protected against fraud, waste, abuse, mismanagement, or misappropriation. The Executive Staff's responsibilities include ensuring that new and existing programs and administrative support activities are managed efficiently and effectively. All Executive Staff members and managers are accountable for safeguarding resources and are also evaluated as financial managers.

## POLICIES AND PROCEDURES

Successful initiatives that began during FY 1995 (emphasis on improving organization, policies and procedures, and systems) were continued in FY 1996. The Bureau actively pursued corrective actions to address the reportable conditions discovered by the OIG in their FY 1995 audit of the Bureau's Statement of Financial Position:

**Improve Non-Entity Accounts Receivable Reconciliation Procedures**  
*Status and Accomplishments: Complete.* Procedures were developed to reconcile accounts receivable balances

in FMIS with the tax and fee databases. Periodic reconciliations began at the end of FY 1996.

### **Strengthen Controls Over Accountability for Reimbursable Work Agreements**

*Status and Accomplishments: Complete.* ATF implemented a mechanism to track all reimbursable agreements, amounts authorized, and amounts billed. The Monthly Accountability Plan includes reimbursable agreement data and is reviewed monthly to ensure that billings and costs related to reimbursable agreements are not exceeded. Procedures were implemented to ensure all pertinent officials have signed the agreements, and differences identified during the reconciliation of expenditure reports are properly adjusted in the general ledger.

### **Improve Implementation and Adherence to Accounting Policies and Procedures**

*Status and Accomplishments: Complete.* Written procedures to estimate allowances for uncollectible accounts were drafted, which included analyses of the collectibility for both individual and group accounts. These procedures were used to calculate FY 1996 allowances. ATF implemented written policies to account for bulk purchases and improved procedures to update the property management system upon receipt of source documents.

### **Improve Closing Procedures to Account for all Expenses and Liabilities in the Proper Period**

*Status and Accomplishments: Complete.* Year-end closing procedures for both entity and non-entity accounting were amended to improve the year-end liability accrual process. Open obligation reports were distributed to customers to ensure all goods and services received before October 1 are captured in the correct accounting period. ATF designed new year-end accrual worksheets and refund claim procedures

to ensure accurate estimation of liabilities.

### **Strengthen Controls Over the Retention of Supporting Documentation Status and Accomplishments: Complete.**

ATF's property section now maintains all documents supporting property adjustments for four years. Invoices supporting capitalized property acquisitions are retained for five years. Telephone bills are retained for the current year and year under audit.

During FY 1996, the Bureau completed action on a FY 1994 OIG survey recommendation to automate the reconciliation between refund claims in the tax subsidiary systems and the general ledger. ATF provided training on a new mainframe claims database to all technical service and tax processing center personnel. Benefits of the new system include automated reconciliation of payments with the financial system and feedback of payment and cancellation data from FMIS to the subsidiary systems.

Keeping with the team approach to tackle significant issues, ATF established a new team to address the FY 1995 EDP reportable conditions, which were:

### **Improve Effectiveness of Access Control Software**

*Status and Accomplishments: In progress.* In FY 1996, ATF reconfigured the Resource Access Control Facility (RACF) for better mainframe data protection; implemented an improved password management process; reduced the number of persons with special attributes to only essential access privileges; eliminated user defined operating functions; and restricted the user's ability to submit operator commands.

### **Use Access Control Software to Separate Incompatible Duties**

*Status and Accomplishments: In progress.* In FY 1996, the Bureau created separate system partitions to

*“There were no new FMFIA deficiencies identified during FY 1996. One deficiency remains pending from a previous FMFIA Report.”*

enable future separation of development and production access; instituted a process for monitoring system programmer activity; and restricted computer operator access to operating system programs and sensitive files. Additional longer term solutions will be required to fully address all deficiencies.

#### **Develop and Implement Program Maintenance Procedures**

**Status and Accomplishments:** *In progress.* In FY 1996, the Bureau acquired a software configuration management control package to manage the software change control process. After product evaluation, ATF will decide whether to expand this management tool to additional applications. ATF is attempting to increase the staffing level for senior systems programmers to support computer operations.

#### **Enhance Controls Over the Information Security Management Function**

**Status and Accomplishments:** *In progress.* In FY 1996, ATF drafted an Automated Information Security Policy Order incorporating all current, pertinent Federal information security standards. This policy will provide guidance to Bureau employees and management concerning their roles and responsibilities within the ATF information security environment. Additionally, the Bureau issued a policy letter advising all application systems owners of their ownership security and operational responsibilities. Future efforts will focus on establishing a certification and accreditation process for all major Bureau information systems.

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### 1996 FMFIA STATUS

ATF's FY 1996 annual statement of assurance to the Secretary of the Treasury indicated that the Bureau could reasonably assure that:

(1) obligations and costs are in compliance with applicable laws and assets are safeguarded;

(2) operational revenues and expenditures are properly recorded and accounted for; and

(3) accounting systems conform to the Comptroller General's accounting principles and standards.

The reasonable assurance was based on the Bureau's continued effort to improve its systems of management controls and aggressive steps to improve automated systems.

There were no new FMFIA deficiencies identified during FY 1996. One deficiency remains pending from a previous FMFIA Report:

**Title and Description:** Compliance Operations Revenue Accounting System. Title since changed to Integrated Collections System (ICS). ICS is not fully integrated with the Bureau's core revenue accounting system (FMIS). The lack of an integrated system hinders the ability to expeditiously and effectively reconcile summary accounting and individual transaction data. Year Identified: 1988.

**Status and Accomplishments:** Pending corrective actions. Accounting for revenue collections and disbursements is fully integrated with the FMIS and under one general ledger with administrative accounting (since FY 1994). Work remains on integrating the FMIS with subsidiary tax and fee databases, which will comprise the ICS when fully developed. In FY 1996, software was implemented that permits the reconciliation of FMIS accounting data with regulatory tax and fee databases for refund claims and cover over payments. Development of an entire revenue system with full integration of program management and accounting functions is a long-term effort currently anticipated to be completed by FY 1999.



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## MANAGEMENT RESPONSIBILITIES

Bureau management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with the accounting hierarchy described in Note 1, Summary of Significant Accounting Policies, which constitutes an “other comprehensive basis of accounting.” Management is also responsible for the fair presentation of ATF’s performance measures in accordance with Office of Management and Budget requirements. The quality of the Bureau’s internal control structure rests with management, as well as the responsibility for identification and compliance with pertinent laws and regulations.

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## LIMITATIONS OF FINANCIAL STATEMENTS

The financial statements were prepared to report the financial position and results of operations of ATF. The Bureau prepared the statements from the books and records of ATF according to formats prescribed by the Office of Management and Budget. However, these statements differ from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.